

**Increased Management Attention Is Needed
to Ensure the Success of
Future Notice Redesign Efforts**

December 2001

Reference Number: 2002-30-040

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 14, 2001

MEMORANDUM FOR COMMISSIONER ROSSOTTI

FROM:

Michael R. Phillips
(for) Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT:

Final Report – Increased Management Attention Is Needed to
Ensure the Success of Future Notice Redesign Efforts
(#200130013)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) has established an effective framework for successfully achieving its notice redesign objectives. The IRS sends more than 100 million notices to taxpayers each year. Over the past decade, the IRS has established a number of initiatives to improve the quality of notices sent to taxpayers. We conducted this review because taxpayers still rate the clarity of notices as one of the most important issues that the IRS needs to effectively address.

In summary, we identified some issues that, in our opinion, may have hampered the IRS' past notice redesign efforts. These include the absence of a master plan for controlling notice redesign efforts, the absence of a system for tracking customer satisfaction with notices, and the absence of effective management systems for overseeing the notice redesign process. Management should ensure that these issues are addressed as part of the IRS' ongoing notice modernization and redesign efforts.

Management's Response: The Deputy Commissioner of the IRS responded that the Notice Modernization Team had identified many of the same concerns as outlined in this report and had incorporated our recommendations into their overall process design prior to the completion of our audit. All four business divisions are now accountable for integrating notice related work into their service and compliance strategies. This includes identifying and prioritizing needs for new/modified notices; ensuring that legislated changes to notices are accomplished; and ensuring appropriate tone and content for each customer segment and message. The Notice Modernization Team identified a total of 36 metrics that tie into the IRS' three balanced measures of Customer Satisfaction, Employee Satisfaction, and Business Results. The identification

and data gathering of relevant metrics will be managed through a newly established position in each division and supported by a newly established Servicewide Notices Support Group office that will establish and maintain a notice management information system. The metrics presented by the Notice Modernization Team include measures of cost and achievement of outcomes.

Office of Audit Comment: We are encouraged by the IRS' efforts to address the long-term problems with notice clarity. Tax law complexity is the primary problem taxpayers have with the IRS according to the National Taxpayer Advocate's FY2000 Annual Report to the Congress. A problem also reported related to tax law complexity is the clarity and tone of the IRS' communications. While the IRS has addressed several of our concerns, the responsibility to improve notices will be delegated to the business divisions. The business divisions' management systems to redesign notices efficiently and effectively are not specifically addressed in the management response. Also, our recommendation to implement a cost tracking system for the notice modernization effort was not addressed. We believe that, without these controls, the IRS will continue to be at risk of not achieving notice modernization objectives in a timely and efficient manner.

Management's complete response to the draft report is presented as Appendix IV.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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Background

The Internal Revenue Service (IRS) sends more than 100 million notices to taxpayers each year. These written notices are the IRS' most visible means of communicating with its customers. The clarity of these notices is vital to the success of the IRS' strategies to meet the needs of taxpayers and reduce taxpayer burden.

The IRS uses 343 different computer-generated notices to assist taxpayers with filing their returns, request information from taxpayers, or solicit payment of taxes. Each notice includes a toll-free number that taxpayers can call for information. The IRS estimates that its notice operations cost \$472 million annually, with about 60 percent of these costs attributable to the downstream impact of issued notices (i.e., handling subsequent correspondence, telephone calls, and remittances from taxpayers).

The need to improve the clarity of written communications to taxpayers has been a known and ongoing issue for the IRS for more than a decade. As far back as 1989, the IRS established a group to review notices for clarity and implement notice clarity guidelines according to standards developed by an outside vendor. While the IRS has hired a number of contractors and established a number of its own initiatives to rewrite and redesign notices during the ensuing 12 years, only incremental progress has been realized.

Taxpayers rank the clarity of notices as one of the most important issues that the IRS needs to effectively address. For example, the National Taxpayer Advocate's Annual Report to Congress for Fiscal Year (FY) 2000¹ listed the "clarity and tone of IRS correspondence" as the third most serious problem, behind only the complexity of individual tax law and business tax law encountered by taxpayers. The report cited the IRS' limited progress in redesigning notices and stated that a problem of this magnitude deserved a stronger commitment and dedication of resources by the IRS.

¹ National Taxpayer Advocate's FY2000 Annual Report to Congress, Publication 2104 (Rev. 12-2000)

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The IRS' Strategic Plan for FY 2000-2005 also identifies "communication with taxpayers" as one of its most significant problems. The plan includes rewriting and redesigning notices as one of the ways that the IRS will implement its strategy to "meet the needs of taxpayers." In August 2000, the IRS Commissioner directed that sustained high-level attention be given to notice improvement and proposed managing it as an agency-wide modernization project.

A Notice Modernization Team was subsequently established in November 2000 to assess the end-to-end notice process and identify major improvement opportunities. The Notice Modernization Team is charged with creating a new system to address the IRS' needs for developing notices to support the business strategies of the four operating divisions.² The goal for this modernization effort is to create a process to ensure notice clarity, as opposed to redesigning specific notices. The modernization effort does not address the needs of the IRS' existing Office of Correspondence Improvement or the "near term" efforts to improve the existing notice redesign or maintenance functions. At the time we completed our fieldwork, the Notice Modernization Team's proposals had not been approved by the IRS' Executive Steering Committee.

To accomplish our objective, we interviewed IRS management officials and reviewed available documentation on past, present, and future notice redesign initiatives. The audit was conducted at the offices of the IRS' Media and Publications function (Wage and Investment Division) in New Carrollton, Maryland, from March through June 2001. The audit was performed in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are presented in Appendix II.

²Large and Mid-Size Business (LMSB), Small Business/Self-Employed (SB/SE), Tax Exempt and Government Entities (TE/GE), and Wage and Investment (W&I) Divisions

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A Master Implementation Plan for Managing and Controlling Future Notice Redesign Efforts Is Needed

The IRS' initial notice redesign initiatives that started years ago have resulted in some recent success. Six redesigned notices were integrated into the IRS' systems in January 2001. At the beginning of FY 2001, another 24 notices were identified for redesign. The rewriting of these notices was expected to take the majority of FY 2001, and after the necessary changes to the current information systems are made, 4 of the redesigned notices are scheduled for implementation in January 2002, 7 in July 2002, and the remaining 13 by January 2003.

At the current pace, redesigning the remaining 313 notices will take an extended period, possibly as long as another decade. Since the IRS does not have the resources to redesign all notices at once, there is a need to place the notices in order of priority to maximize the opportunity for reducing taxpayer burden, increasing taxpayer compliance, and improving IRS productivity.

The IRS' past notice redesign efforts have not been controlled by a master plan. A master plan would formally set the criteria for the order for redesign, identify the resources needed for the notice redesign initiative, and outline the overall timetable for completing the notice redesign work. Instead, the IRS has primarily relied on notice volumes and anecdotal information from informal employee observations in selecting notices for redesign.

There is a risk that this type of selection process may not necessarily identify the notices that, if redesigned, could produce the greatest benefits in meeting IRS business goals. As the time comes for more notices to be considered for the redesign initiative, the notice redesign selection criteria become even more important. An unknown portion of IRS resources is used to handle taxpayer responses to unclear notices. At the same time, unclear notices can increase taxpayer burden and hinder tax compliance.

Recommendation

1. To ensure the successful management of the IRS' future notice redesign efforts, the Commissioners of the SB/SE

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and W&I Divisions need to develop a master redesign plan for all IRS notices that includes a notice priority scheme and a timetable for completing the notice redesign effort. This plan would enable IRS management to continuously assess whether its notice redesign activities, business processes, and resources are properly aligned with customer needs to support its mission and achieve desired outcomes.

Management's Response: The IRS commissioned a multi-functional Notice Modernization Team in November 2000 to formulate an overall notice redesign and development strategy that correlated to taxpayer needs and the needs of the new IRS customer-focused business divisions. Their recommendations regarding future strategy and structure essentially form the master plan relating to the entire notice process. All four business divisions are now accountable for integrating notice-related work into their overall service and compliance strategies. This includes identifying and prioritizing needs for new/modified notices; ensuring that legislated changes to notices are accomplished; and ensuring appropriate tone and content for each customer segment and message.

A Systematic Evaluation of Taxpayer Feedback Would Help to Align Future Notice Redesign Efforts with Customer Needs

The IRS does not have an established process for tracking taxpayer feedback concerning satisfaction with the clarity of IRS notices. Before the IRS' reorganization in October 2000, some taxpayer feedback was captured to provide information about the effectiveness of a specific notice. After the reorganization, these analyses were discontinued since the data system and the personnel available for this analysis were split between two divisions. Further, we were advised that there has been no raw data received since October 2000.

The General Accounting Office's (GAO) *Standards for Internal Control in the Federal Government* require management to ensure that there are adequate means of obtaining information from external stakeholders that impact on an agency achieving its goals. Presidential Executive Order 12862 also directs federal agencies to survey their customers to determine service satisfaction

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levels, set service standards, and measure results against the best in the business.

In a March 2000 report,³ the GAO recommended that the IRS explore the cost-effectiveness of a notice tracking system. In response to this report, the IRS indicated it had not developed a formalized notice tracking system because of higher priorities, such as modernizing its computer systems and stabilizing its existing systems.

IRS officials recognize a need for a feedback system and would like to develop the capability to evaluate customer satisfaction with notices. Under the current Notice Modernization effort, the taxpayer feedback concept is a work-in-progress. IRS officials advised us that IRS systems should provide measurements for specific notices to evaluate the effectiveness of efforts to resolve tax issues and also provide for alerts to further improve communications with taxpayers.

Without taxpayer feedback regarding the clarity of IRS notices, the IRS cannot be certain that the notices are achieving their intended purpose. In addition, without this feedback, the potential exists that the IRS' notice redesign efforts will not focus on those notices that represent the best opportunities for reducing taxpayer burden, improving taxpayer satisfaction, and/or increasing IRS productivity.

Recommendation

2. To effectively align the IRS' future notice redesign efforts with customer needs and ensure that the redesigned notices are achieving the desired results, the Commissioners of the SB/SE and W&I Divisions need to ensure the development and implementation of a tracking system that would enable the IRS to measure taxpayer satisfaction levels with the clarity of notices and to identify and correct problems with the new design.

³ *Tax Administration: Tracking Taxpayer Information About IRS Notices Could Reduce Burden* (GAO/GGD-00-54, dated March 28, 2000)

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Management's Response: The Notice Modernization Team identified a total of 36 metrics that tie into the IRS' three balanced measures of Customer Satisfaction, Employee Satisfaction, and Business Results. Although not all metrics would be captured on each notice or for each aspect of the notice process, each operating division will be able to identify the measures most relevant for their customer segment and business. Identification and data gathering of relevant metrics will be managed through a newly established position in each division and supported by a newly established Servicewide Notices Support Group office which, among other duties, will establish and maintain a notice management information system of all notices and key notice data. The IRS' plans also call for gathering customer feedback on the effectiveness of their recent notice redesign efforts.

Effective Management Systems Are Needed to Enhance the Chances of Success of Future Notice Redesign Efforts

The IRS has had several initiatives -- both in-house and contracted redesign efforts -- over the past decade to improve notices. The IRS has determined that, while the notice modification/creation process is designed to take 17 months, it typically lasts substantially longer.

While there is limited information on the management systems used to oversee these efforts, there is no evidence that project management techniques were used. Project management techniques are appropriate when there is a beginning and an end to the work and when there is a unique product produced. Thus, the redesign of a notice fits these criteria. Without project management techniques, it is more difficult for management to ensure the notice redesigns are on schedule, within budget and meet quality standards.

Additionally, in the past, the IRS has not captured and evaluated the costs of its notice clarity and redesign operations. In particular, there is no IRS policy or procedural guidance in place that gives direction to the IRS' operating functions on how human capital and overhead costs should be captured and evaluated. Additionally, the IRS' Notice Clarity function has had limited resources to

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capture and analyze cost data since not all positions authorized by the October 2000 reorganization have been filled.

Without reliable and timely cost information, management's ability to ensure that resources are spent to achieve the expected results is lessened. Measuring costs is an integral part of management's responsibility to adequately evaluate program performance in terms of efficiency and effectiveness.

Office of Management and Budget (OMB) Circular A-11, *Preparation and Submission of Budget Estimates*, strongly encourages agencies to measure program efficiency and to strive to include goals or indicators for unit cost. Another OMB publication⁴ also requires agencies to accumulate and report the costs of its activities on a regular basis for management information purposes. Managerial cost accounting is the process of accumulating, measuring, analyzing, interpreting, and reporting cost information useful to both internal and external groups concerned with the way in which the organization uses, accounts for, safeguards, and controls its resources to meet its objectives.

Recommendation

3. The Commissioners of the SB/SE and W&I Divisions need to ensure that effective management systems are used to oversee notice redesign efforts. Likewise, control systems are needed so that cost information is captured to help determine whether future notice redesign efforts are performed in an efficient and cost-effective manner.

Management's Response: The Notice Modernization Team's recommendations have laid the groundwork for the operating divisions to govern their notice efforts more effectively. The 36 metrics presented by the Notice Modernization Team are comprehensive and include

⁴ *Managerial Cost Accounting Concepts and Standards for the Federal Government*, dated July 31, 1995

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measures of cost and achievement of desired outcomes. Cost/benefit analysis, predictive modeling and post-event analysis are some additional techniques that the operating divisions may employ. To address the lengthy notice modification process, the IRS' design also establishes the practice of employing ad hoc teams within the IRS geared to developing and issuing new and revised notice content in significantly shortened time frames. Each operating division will establish a new Single Point of Content (SPOC) office to assist them in their efforts to create and modify notices. The SPOCs will work in collaboration to ensure effective oversight of Servicewide notice issues.

Office of Audit Comment: We are encouraged by the IRS' efforts to address the long-term problems with notice clarity. Tax law complexity is the primary problem taxpayers have with the IRS according to the National Taxpayer Advocate's FY2000 Annual Report to the Congress. A problem also reported related to tax law complexity is the clarity and tone of the IRS' communications.

While the IRS has addressed several of our concerns, the responsibility to improve notices will be delegated to the business divisions. The business divisions' management systems to redesign notices efficiently and effectively are not specifically addressed in the management response. Also, our recommendation to implement a cost tracking system for the notice modernization effort was not addressed. We believe that, without these controls, the IRS will continue to be at risk of not achieving notice modernization objectives in a timely and efficient manner.

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Appendix I

Detailed Objective, Scope, and Methodology

Our audit objective was to determine whether the Internal Revenue Service (IRS) has established an effective framework for successfully achieving both its notice clarity and notice redesign objectives.

At the time of our review, the IRS had initiated a Notice Redesign Team to design, from the ground up, the notice system of the future. As a result, our audit focused on organizational and control issues involving the IRS' past and current notice redesign efforts so that any identified deficiencies could be applied to the IRS' future notice redesign efforts.

To accomplish our objective, we:

- I. Determined whether the IRS has established an organizational structure for successfully achieving both its incremental notice clarity and notice redesign objectives.
 - A. Reviewed the IRS Modernization documentation to determine the basis for the current Office of Correspondence Improvement (OCI) organizational structure.
 - B. Evaluated whether the current OCI organizational structure was developed, giving full consideration to both notice maintenance and notice redesign work requirements.
 - C. Assessed the impact of designated transition managers and employees on the OCI function's ability to accomplish its mission.
 - D. Determined whether sufficient staffing was being provided, particularly in management and supervisory capacities, to effectively carry out the responsibilities of the OCI function.
 - E. Evaluated the ability of the OCI organizational structure to provide the necessary flow of information (i.e., up and down the chain of command and across all business activities) to manage its activities.
 - F. Determined whether the organization structure was appropriately centralized or decentralized given the nature of the OCI function's operations.
 - G. Determined whether operating procedures and job descriptions had been developed for the OCI function.

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- H. Determined whether key managers' responsibilities had been adequately defined.
- I. Determined whether established reporting relationships (i.e., formal or informal, direct, or matrix) were effective and provided managers with information that was appropriate to their responsibilities and authority.
- II. Determined whether the IRS defined clear operational goals and strategies and developed an operating plan that can be effectively used for identifying, prioritizing, and conducting its future notice redesign efforts.
 - A. Evaluated the Notice Modernization initiative to determine whether there were appropriate goals, strategies, project objectives, action items, designated responsible officials, and timetables in the planning documents to ensure a successful project.
 - B. Evaluated the redesign project coordination with other IRS functions by determining whether all affected IRS organizations had participated in the project planning.
 - C. Evaluated the management approval process for the redesign project by determining whether all affected IRS organizations had concurred with the redesign plans.
 - D. Evaluated whether management had developed a means to systematically identify, gather, and catalog trends, issues, and problems regarding notices and letters that affect business operations, including IRS telephone and field operations, and taxpayer burden, and whether this information had been fully considered in developing and prioritizing future notice redesign efforts.
 - E. Evaluated the appropriateness of any prioritization criteria that were being used in selecting notices for redesign.
- III. Determined whether the IRS developed an adequate system of controls for assessing the level of organizational effectiveness and efficiency achieved by the OCI function.
 - A. Identified and evaluated the measures that management had developed for determining how well the notice clarity and notice redesign efforts were meeting organizational goals and customer expectations.
 - B. Identified and evaluated the reliability of the management information reports or other analytical tools that were used to monitor and assess the attainment of goals

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and expectations (e.g., the quality, quantity and timeliness of outputs, employee satisfaction, customer satisfaction).

- C. Determined whether notice redesign project costs were captured, monitored, and evaluated by IRS management to fulfill its responsibility of ensuring the efficiency of operations.
- D. Interviewed OCI function managers to determine the value of costing information in managing the OCI operations.
- E. Determined whether there was a system of controls for reporting the status of redesign efforts, including the status of notice redesign projects, the number of notice redesign projects completed, and the length of time and costs taken to implement these redesign projects.
- F. Determined whether project management techniques were used on previous notice redesign initiatives.

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Appendix II

Major Contributors to This Report

Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs)

Philip Shropshire, Director

William E. Stewart, Audit Manager

Lawrence R. Smith, Senior Auditor

E. John Thomas, Senior Auditor

Steven R. Bohrer, Auditor

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Appendix III

Report Distribution List

Deputy Commissioner N:DC
Assistant Deputy Commissioner for Modernization N:ADC:MOD
Commissioner, Large and Mid-Size Business Division LM
Commissioner, Small Business/Self-Employed Division S
Commissioner, Tax Exempt and Government Entities Division T
Commissioner, Wage and Investment Division W
Director, Customer Assistance, Relationships, and Education Division, Wage and Investment
Division W:CAR
Director, Media and Publications Division, Wage and Investment Division W:CAR:MP
Notice Modernization Team Leader, Wage and Investment Division W:CP:CS:AN
Notice Clarity Branch Chief, Wage and Investment Division W:CAR:MP:NC
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Chief Counsel CC
National Taxpayer Advocate TA
Office of Management Controls N:CFO:F:M
Audit Liaisons:
Commissioner, Large and Mid-Size Business Division LM
Commissioner, Small Business/Self Employed Division S
Commissioner, Tax Exempt and Government Entities Division T
Commissioner, Wage and Investment Division W

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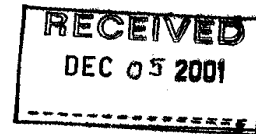
Appendix IV

Management's Response to the Draft Report

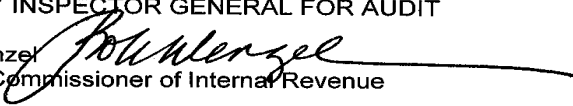


DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

December 5, 2001



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Bob Wenzel 
Deputy Commissioner of Internal Revenue

SUBJECT: Treasury Inspector General for Tax Administration (TIGTA) Draft
Audit Report – Increased Management Attention is Needed to
Ensure the Success of Future Notice Redesign Efforts (Audit No.
200130013)

Thank you for the opportunity to respond to your November 5, 2001, draft audit report on the need for increased management attention to ensure the success of future notice redesign efforts. The Internal Revenue Service (IRS) places a very high priority on improving our entire notice design and development process to better meet customer needs and work effectively in our new structure.

Your report noted that at the time you conducted the audit, the IRS had just commissioned a Notice Modernization Team to design a more effective notice process from the ground up. As a result, your audit focused on issues involving past efforts relating to notice redesign so that any identified deficiencies could be applied to our current initiatives.

I am pleased to report that the Notice Modernization Team had identified many of the same concerns as outlined in this report and had incorporated your recommendations into their overall process design prior to the completion of the audit. Our comments that follow highlight some of the principal design proposals made by the team and approved by the IRS Tax Administration Council, which directly address your recommendations.

IDENTITY OF RECOMMENDATIONS/FINDINGS

1. To ensure the successful management of the IRS' future notice redesign efforts, the Commissioners of the Small Business/Self-Employed (SB/SE) and Wage and Investment (W&I) Divisions need to develop a master redesign plan for all IRS notices that includes a notice priority scheme and a timetable for completing the notice redesign effort. This plan would enable IRS management to continuously assess whether its notice redesign activities, business processes, and resources are properly aligned with customer needs to support its mission and achieve desired outcomes.

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2

ASSESSMENT OF CAUSE

The IRS' past notice redesign efforts have not been controlled by a master plan. A master plan would formally set the criteria for the order for redesign, identify the resources devoted to the notice redesign initiative, and outline the overall timetable for completing the notice redesign work. Instead, the IRS has primarily relied on notice volumes and anecdotal information from informal employee observations in selecting notices for redesign.

IRS COMMENTS

IRS commissioned a multi-functional Notice Modernization Team in November 2000 under the dedicated direction of an IRS executive to formulate an overall notice design and development strategy that correlated to taxpayer needs and the needs of the new IRS customer-focused business divisions. Their recommendations regarding future strategy and structure essentially forms the master plan relating to our entire notice process. It also goes beyond the TIGTA recommendation that the Commissioners of the Wage and Investment Division (W&I) and the Small Business/Self Employed Division (SB/SE) identify notice redesign priorities.

All four business divisions are now accountable for integrating notice related work into their overall service and compliance strategies. This includes, among other responsibilities, identifying and prioritizing needs for new/modified notices; ensuring that legislated changes to notices are accomplished; and ensuring appropriate tone and content for each customer segment and message. Clearly, this is the best way to ensure that IRS management can continuously assess whether its notice redesign activities, business processes, and resources are properly aligned with customer needs and business objectives.

The Notice Modernization team report covers five core processes related to notices: Management of the Notice Process; Notice Creation & Modification; Notice Production and Issuance; Resolution of Account Issues and Performance Measurement and Feedback. I will be glad to arrange a separate briefing on the entire report.

IDENTITY OF RECOMMENDATIONS/FINDINGS

2. To effectively align the IRS' future notice redesign efforts with customer needs and ensure that the redesigned notices are achieving the desired results, the commissioners of the SB/SE and W&I Divisions need to ensure the development and implementation of a tracking system that would enable the IRS to measure taxpayer satisfaction levels with the clarity of notices and to identify and correct problems with the new design.

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3

ASSESSMENT OF CAUSE

The IRS does not have an established process for tracking taxpayer feedback concerning satisfaction with the clarity of IRS notices. Before the reorganization of the IRS in October 2000, some taxpayer feedback was captured to provide information about the effectiveness of a specific notice. After the reorganization, these analyses were discontinued since the data system and the analysis personnel were split between the two divisions. Although, the Notice Clarity Function still receives the raw data from these previous analyses, it has not had the resources to evaluate the data.

IRS COMMENTS

The Notice Modernization Team identified a total of 36 metrics that tie into the three IRS balanced measures of Customer Satisfaction, Employee Satisfaction and Business Results. Although not all metrics would be captured on each notice or for each aspect of the notice process, each Operating Division will be able to identify the measures most relevant for their customer segment and business. Identification and data gathering of relevant metrics will be managed through a newly established position in each division and supported by a newly established Servicewide Notices Support Group office. Among other duties, the Notices Support Group will establish and maintain a notice management information system of all notices and key notice data. The design envisions that the new Notice Support Group office will play a key role in providing data analysis to assist the business divisions in developing measures of effectiveness, such as customer satisfaction.

Our plans also call for gathering customer feedback on effectiveness of our recent notice redesign efforts, which include the six redesigned notices that were placed into production in late 2000 and represent over 11 million notices yearly.

IDENTITY OF RECOMMENDATIONS/FINDINGS

3. The Commissioners of SB/SE and W&I Divisions need to ensure effective management systems are used to oversee notice redesign efforts. Likewise, control systems are needed so that cost information is captured to help determine whether future notice redesign efforts are performed in an efficient and cost-effective manner.

ASSESSMENT OF CAUSE

The IRS has determined that, while the notice modification creation process is designed to take 17 months, it typically lasts substantially longer. In fact, the 17- month period starts from the development of the Request for Information Services (RIS) and does not include time attributable to the development of the redesigned notices. While there is limited information on the management systems used to oversee several initiatives over the past decade to improve notices, there is no evidence that project management techniques were employed. Additionally, in the past, the IRS has not captured and evaluated the costs of its notice clarity and redesign operations.

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IRS COMMENTS

As stated in our response to recommendations 1 and 2, the approved Notice Modernization Team's recommendations have laid the groundwork for the Operating Divisions to govern their notice efforts more effectively.

We would like to clarify, however, that the notice process is not designed to take 17 months. Most notices are created or modified and issued in considerably less time than 17 months. For example, the almost 130 million notices issued to taxpayers starting in July 2001 to notify them about their immediate tax relief checks, were developed and released in less than 6 weeks.

The 36 metrics presented by the Notice Modernization Team are comprehensive and include measures of cost and achievement of desired outcomes. Since each operating division is now accountable for the notices sent to its customer segment, they will determine the measures that will best assess the effectiveness of their notices and notice process. Cost/benefit analysis, predictive modeling and post-event analysis are some additional techniques that ODs may employ.

To address the lengthy notice modification process, our design also establishes the practice of employing ad hoc teams within the IRS geared to developing and issuing new and revised notice content in significantly shortened time frames. Also, while the new strategy and structure design is being implemented in each division, a segment of the Notice Modernization team and the Information Technology Services organization continues to explore improvements to our IT production timetables to enhance current efficiencies.

Each Operating Division will establish a new Single Point of Contact (SPOC) office to assist them in their efforts to create and modify notices for which the operating division is responsible. The SPOC's will work in collaboration to ensure effective oversight of Servicewide notice issues.

SUMMARY

As you noted, IRS sends more than 100 million notices each year. This fact alone indicates that the redesign of our entire notice development process is an enormous undertaking. Some of our ultimate process improvement objectives cannot be fully realized without new technology. However, I think we have made significant strides with adopting the new strategy and structure design. FY 2002 will be a key implementation period.

Because of the significance of our notice process to overall IRS compliance and service strategies, the Tax Administration Council, which is chaired by the Commissioner, will continue to oversee implementation progress. As I mentioned, the Notice Modernization team reports contain extensive detail about our new approach, which I have not included in this response. We will provide you and your staff with a comprehensive briefing at any time.